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INFO RUEHAC/AMEMBASSY ASUNCION 7180
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RUEHBO/AMEMBASSY BOGOTA 4555
RUEHBR/AMEMBASSY BRASILIA 8453
RUEHBU/AMEMBASSY BUENOS AIRES 5680
RUEHBY/AMEMBASSY CANBERRA 0087
RUEHCV/AMEMBASSY CARACAS 2904
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RUEHMD/AMEMBASSY MADRID 3640
RUEHMN/AMEMBASSY MONTEVIDEO 4941
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E.O. 12958: DECL: 10/26/2017

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SUBJECT: NO SILVER LINING YET FOR APEX'S SAN CRISTOBAL MINE

Classified By: EcoPol counselor Mike Hammer for reasons 1.4 b,d

11. (C) Apex's local executives continue to report difficulty in arranging meetings with Bolivian government officials. The draft bill which would increase mining taxes by 12.5 percent has passed the lower house of congress, so San Cristobal is focusing their efforts to arrange a modification on influential senators. Also now with the Senate is a draft bill to eliminate the CEDEIMS import tax recovery program for companies in the mining, hydrocarbons, and forestry sector which do not produce "value added" products: San Cristobal would be adversely affected by this proposed change because, since they export concentrate rather than metal, they are considered a company which does not produce a value-added product. Because of the fact that San Cristobal hedged on the price of silver to arrange financing for the mine, these combined changes could be devastating for the operation and, according to San Cristobal estimates, could result in a net tax rate of over 90 percent going to the Bolivian government.

12. (C) San Cristobal has proposed a package of changes which would allow the mine to continue operating while giving the government the 50 percent share of profits that the government claims would be satisfactory. The San Cristobal package includes four items: elimination of the current surtax, maintaining the CEDEIMS program, making hedge costs deductible, and creating a new creditability formula for the complementary mining tax. Although San Cristobal executives are adamant that the package must be accepted as a whole, privately they confess that they fear the government will not accept all four items. From previous other reports, it seems likely that the CEDEIMS program can be saved (Mining Minister Echazu has promised to discuss this with the ministry of finance, which is responsible for the bill.) Deductibility for hedge costs seems more problematic, however: various sources have mentioned that pertinent Bolivian officials do

not understand the concept of a hedge and feel it is a way in which San Cristobal has "cheated".

13. (C) Apex continues to try to leverage the good will of the Bolivian government toward the Japanese by working closely with Sumitomo, which owns 35 percent of San Cristobal mine. However, despite past promises of cooperation from the Bolivian government, Japanese officials tell us that they are receiving little encouragement. In an attempt to bring high-level attention to the situation, San Cristobal officials invited the Ambassador, the Japanese Ambassador, and Bolivian officials to visit the mine. Ambassador Goldberg intends to visit on November 14; the Japanese embassy informs us that they will only attend if Bolivian officials are also present, and currently no Bolivian official seems willing to visit the largest mining investment in Bolivia.

GOLDBERG